H. CARL McCALL
STATE COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 25, 2002

Mr. Vincent A. Cook
Chairman
Central New York Regional Transportation
Authority
200 Cortland Avenue
Syracuse, NY 13205-0820

Re: Report 2002-F-33

Dear Mr. Cook:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the Central New York Regional Transportation Authority (Authority) as of October 2, 2002, to implement the recommendations contained in our audit report, *Selected Financial Management and Operating Practices* (Report 2000-S-21).

Our report, which was issued on February 8, 2001, reviewed selected financial management and operating practices at the Authority for the period of April 1, 1998 through June 30, 2000. The objectives of our financial-related audit were to determine whether the Authority was procuring goods and services competitively, to evaluate the financial condition of the Regional Transportation Center, and to review the question of whether the Authority's practice of providing its Board members with health and life insurance benefits should be considered the payment of compensation.

Background

The Authority, managed by a three-person executive management team (Chief Administrative Officer, Chief Financial Officer, and Chief Operating Officer) that reports to a ten-member Board of Directors (Board), was established in 1970 by Title 11-D of the Public Authorities Law. The Authority's purpose is to continue, further develop, and improve transportation and related services in the Syracuse area. The Authority provides fixed-route public transit services, as well as mandated services for the disabled within Onondaga, Oswego, and Cayuga counties. It also provides shuttle bus services and parking management services for several public agencies in Syracuse.

In 1998, the Authority constructed and opened the Regional Transportation Center (Center), an inter-modal transportation hub that links the services of interstate bus and rail companies, taxis, and the Authority's fixed-route public transit operation. The Authority oversees the Center through

Intermodal Transportation Center, Inc., the public benefit subsidiary corporation it established in 1997. According to its annual financial report for the fiscal year that ended on March 31, 2002, the Authority had $27.3 million in operating revenues, including $15 million from Federal, State, and local governments; $3.5 million from mortgage recording taxes; and $8.8 million from passenger fares, charter services, parking, advertising fees, and other sources. During this year, the Authority had operating expenses of $35.1 million including depreciation, with a net operating loss of $7.8 million. After considering non-operating revenues of $6.4 million, the Authority had a net loss of $1.4 million for this year.

Summary Conclusions

In our prior audit, we found that the Authority often did not adhere to its own guidelines when it purchased goods and services, and it did not fully document its purchasing transactions. We also found that the Regional Transportation Center (Center) had operated consistently at a loss and recommended actions that could be taken to address these operating losses. In addition, the Authority had provided some of its Board members with life insurance benefits, although there was no specific legislative authority for doing so.

In our follow-up review, we found that Authority officials have made progress in implementing the procurement-related recommendations contained in our prior audit. However, they have not implemented recommendations we made to address the Center's operating losses. The Authority projects annual net losses ranging from $18,789 to $38,199 for fiscal years 2002 through 2007. According to Authority officials, the decrease in bus and train travel since September 11, 2001, has made it difficult for them to maximize revenues. The Authority also continues to provide life insurance benefits to Board members without legislative authority.

Summary of Status of Prior Audit Recommendations

Of the 12 prior audit recommendations, Authority officials have implemented 7 recommendations, partially implemented 2 recommendations, and not implemented 3 recommendations.

Follow-up Observations

Recommendation 1

Require the executive management team to make sure that all purchases comply with Authority guidelines that were developed to provide for an open, competitive procurement process.

Status – Partially Implemented

Agency Action – Many changes have occurred since our prior audit to improve controls over the procurement of goods and services. For example, in August 2000, the new Director of Purchasing completed the Authority's first purchasing manual, documenting existing Authority procedures as well as adding new procedures consistent with the State Comptroller's guidelines. In addition, Authority officials have re-instituted the use of a

purchase order for the procurement of goods and services. Although officials told us that purchase orders had been used in the past, it was not on a consistent basis. Officials also made mandatory the use of requisitions and receiving reports that, although they may have existed in the past, were rarely, if ever, used. They made unit administrative personnel responsible for approving requisitions and signing off on the receiving reports. Officials have also established a vendors bid list and contract files, and they now utilize checklists to verify that the necessary documentation for each purchase is included in one folder.

Although Authority officials have taken these steps to improve controls over the procurement process, we found that not all purchases comply with Authority guidelines. We reviewed a sample of 13 purchases exceeding $1,000 made during the fiscal period that ended on March 31, 2002. Our review looked for the presence of a purchase order, a purchase requisition, proper approvals, bids or quotes, and other documentation as required by the Authority's purchasing manual. We found that 6 of the 13 purchases did not have a purchase order or a requisition and therefore did not have the authorizing signatures required by the Authority's procedures. We also found that two purchases over $10,000 did not have the required Board approval.

When we discussed the results of our procurement sample with Authority officials, we were told that all exceptions reported relate to a single operating unit, the Human Resources Office. These officials further acknowledged that some other operating units are still not complying with the Authority's new purchasing procedures.

Recommendation 2

Require the executive management team to undertake more-effective monitoring of staff efforts to document all purchasing transactions and maintain a proper file management system.

Status – Partially Implemented

Agency Action – As noted above, the Authority has taken steps to strengthen the controls over the procurement process, including the development of checklists to ensure that all purchases are documented properly. However, our sample test revealed that 6 of the 13 purchases we reviewed were paid without having all required documentation on file.

Recommendation 3

Require staff to verify that goods and services have been received and that the prices paid are in compliance with contract terms.

Status – Implemented

Agency Action – The Authority has taken steps to improve its internal controls over the payment for goods and services by reinforcing the responsibilities of both staff and administrators to verify that goods and services have been received and that the prices are in compliance with contract terms. For example, in August 2000, the Authority issued Invoice Approval

Guidelines to all departments instructing staff on the due diligence required when approving invoices. These Guidelines include verification of price and the acknowledgment of receipt of items purchased. In addition, a similar but separate set of instructions was issued in October 2000 to those persons authorized as check signers. The instructions explained the importance of the check signer's role as the final control to ensure accurate disbursements.

Recommendation 4

Instruct staff to verify that payments made on previous balances are supported by original invoices and have not already been paid.

Status – Implemented

Agency Action – In September 2000, the Authority issued a memorandum to its Accounts Payable unit detailing a new procedure that should be followed for determining whether prior payments have already been made on invoices before current payments are made. The Authority also issued instructions to all authorized check signers pointing out their responsibility for ensuring that all the conditions for payment are documented properly and met before they sign a check. Both of these documents instruct staff on their responsibility to ensure that problems cited in our prior audit are less likely to recur.

Recommendation 5

Instruct staff to verify that only approved amounts are paid, and to develop computer edits that will prevent invoices from being entered more than once.

Status – Implemented

Agency Action – As stated above, a memo issued by the Authority in September 2000 discusses the duplicate payment problems and provides guidance on researching invoices that appear as a result of a computer-warning message. The memo also discusses the problems with imputing certain number sequences, which Authority officials believe was one of the causes of overpayments. In addition, Authority officials upgraded the Accounts Payable system so they can now generate a "Match Edit List." The Match Edit List provides a comparison of the items and quantities received and the amount paid per invoice to the purchase order, which should prevent overpayments. In addition, to prevent duplicate payments under the same purchase order number, the system closes out the number after payment.

Recommendation 6

Recover the overpayments identified in this report. Review the payment records to determine if other payment errors have resulted in over- or under-payments. Process all adjustments.

Status – Implemented

Agency Action – Authority officials provided documentation supporting the recovery of all the overpayments cited in our prior audit report. In their review of payment records, they also identified further overpayments they had recovered.

Recommendation 7

Prepare and submit the required annual procurement reports on a timely basis.

Status – Implemented

Agency Action – Officials provided us with documentation showing that the reports had been completed and submitted to the Office of the State Comptroller's Bureau of Financial Reporting (Bureau) prior to the due date for the fiscal years that ended on March 31, 2001 and March 31, 2002. We verified that the Bureau had received these documents.

Recommendation 8

Perform periodic updates of long-term financial forecasts for the Regional Transportation Center.

Status – Implemented

Agency Action – Authority officials provided us with a copy of their latest fiscal projections for the Center, which estimated net losses of $38,199, $24,132, $18,789, $22,983, $28,820, and $34,370 for fiscal years 2002 through 2007. Our prior audit reported that financial projections performed by the Authority were not reviewed and updated annually to provide for current trends. Officials told us they now perform annual updates that include revisions based on the current economic trends.

Recommendation 9

Incorporate provisions in new tenant leases at the Center that will make it possible to recover capital and operating costs.

Status – Not Implemented

Agency Action – According to Authority officials, the decrease in bus and train travel since September 11, 2001, has made it difficult for them to secure a tenant for the Center's gift shop. They said that, even though all the leases at the Center contain some sort of index or escalation clause, they have not added common area capital and operating costs to these leases as recommended. They expressed the belief that they have obtained agreements that provide the best terms for both parties.

Recommendation 10

Develop a system for identifying all common area costs that can be used when billing tenants and preparing budgets. Negotiate Center leases that will facilitate the recovery of applicable common costs.

Status – Not Implemented

Agency Action – According to Authority officials, they have not developed a system for identifying common area costs at the Center. They believe their leverage in negotiating tenant leases was diminished by the events of September 11, 2001. According to officials, both bus and train travel are down significantly and they have already had to replace the gift shop lessee twice in the months following the incident. They expressed the belief that adding the cost of maintaining the common areas, as well as the additional security costs they have had incurred since September 11, 2001, would drive away vendors.

Recommendation 11

Do not provide health or dental benefits to members of the Board of Directors until they have served in their positions for at least six months.

Status – Implemented

Agency Action – On August 23, 2002, the Board passed Resolution #1557 providing that new Board members must wait a probationary six-month period before they receive health insurance benefits.

Recommendation 12

Discontinue providing life insurance coverage to members of the Board of Directors in the absence of specific legislative authority for doing so.

Status – Not Implemented

Agency Action – Authority officials continue to disagree with our recommendation regarding life insurance. They restated their initial position that the life insurance benefits provided by the Authority are well below those considered by the Internal Revenue Code to be compensation, and that providing such benefits to Board members is appropriate.

Auditors' Comment – We believe this issue will only be clarified if specific legislative authority is given.

Major contributors to this report were John Buyce, Larry Wagner, and Don Wilson.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved issues discussed in this report. We also thank the management and staff of the Central New York Regional Transportation Authority for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Frank J. Houston,
Audit Director

cc: Deirdre A. Taylor